

Machinery and equipment may qualify for the exemption where it is used to inspect, test, or measure the tangible personal property to be sold where such function is an integral part of the production flow. See 86 Ill. Adm. Code 130.330. (This is a GIL.)

April 20, 2006

Dear Xxxxx:

This letter is in response to your letter dated December 21, 2005, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

We have a business in Illinois. We manufacture fine pitch gears per our customers' specifications. Our capabilities range from small screw machines to large CNC turning centers, CNC milling, drilling, tapping, broaching, grinding and hobbing. All products manufactured are customized to our customers' requirements. We have a broad customer base in fields from aircraft components to commercial gearing.

We have questions regarding the following specific inspection equipment that we purchase to 'measure a direct and immediate physical change upon the tangible personal property to be sold, provided such function is an integral and essential part of tuning, verifying or aligning the component parts of such property;' Section 130.330(d)(3)(8) during the manufacturing process of the gears we produce. Please help clarify whether these are subject to sales or use tax.

Plug gages, thread gages, ring gages, calipers all of which are hand-held, non pneumatic, non-electric powered tool, but used as a 'tool separate from any machinery but essential to an integrated manufacturing or assembling process;' Section 130.330(c)(3). We are aware that in past GIL's, i.e. ST 04-0021-GIL that hand tools do not qualify for the exemption, but we would appreciate a specific ruling as to the classification of hand held 'inspection equipment' as **a taxable hand tool or a non-taxable inspection equipment**. These gages can be very expensive and are used to

measure dimensions specific to each customers' requirements. They are not a generic hand tool. We could not continue in our production process without using these inspection tools to 'hand' measure the gears dimensions at their various stages of production.

This ruling would affect current and future tax periods. There is not an audit or litigation pending with the Department.

To the best of my knowledge the Department has not previously ruled on this specific issue.

DEPARTMENT'S RESPONSE:

Without a detailed description of the measuring devices in question, including a detailed account of how each device is used in the manufacturing process, the Department is unable to issue a private letter ruling in this matter. However, I hope the following general information will aid you in making a determination of your tax liabilities.

Machinery and equipment may qualify for the exemption where it is used to inspect, test, or measure the tangible personal property to be sold where such function is an integral part of the production flow. See 86 Ill. Adm. Code 130.330(d)(3)(C). However, the Department's rules are very clear that equipment that may qualify for the exemption does not include hand tools. See 86 Ill. Adm. Code 130.330(c)(3).

You may want to review the Department's rules regarding what qualifies as production related tangible personal property for use of Manufacturer's Purchase Credit. See 86 Ill. Adm. Code 130.331.

I hope this information is helpful. If you require additional information, please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Edwin E. Boggess
Associate Counsel

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